
OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Estimated Savings Associated With Hypothetical Retiree Health Benefit Change

On February 19, and March 8, 2010 Buck Consultants provided the Joint Committee on Retiree Health with projections for various hypothetical changes in the retiree health benefit. Buck Consultants' reports were included within the Joint Committee's report presented to the City Council on September 7, 2010, entitled "Study by the Joint Committee on Retiree Health."

On September 15, 2010, Councilmember DeMaio requested that the IBA provide an analysis of annual savings (FY 2012 through FY 2015) associated with "Option 12," one of the 19 options for changing the retiree health benefit outlined in the Buck Consultants' reports. Specifically, the request was to compare the FY 2011 retiree health budget amounts, both Citywide and General Fund, to estimates associated with elimination of the retiree health benefit for active employees. This report addresses that request.

"Option 12" within Buck Consultants' reports projects the effects of eliminating the retiree health benefit for active employees. Active employees include employees (and terminated vested individuals) who are not retired as of the June 30, 2009 actuarial valuation for the City's retiree health benefit plan. Buck's March 8, 2010 projections, which are utilized in this analysis, assume full funding of the Annual Required Contribution (ARC).

Below is a chart which includes the following Citywide and General Fund amounts:

- FY 2011 budget for retiree healthcare payments – which includes a Citywide pay-as-you-go (PAYGO) amount of \$32.8 million and a Citywide prefunding amount of \$25.0 million. Additionally, there is a column for the General Fund budget as a percent of the Citywide budget.
- Buck Consultants' "Option 12" ARC projections.

- Estimated budget savings, which would be the difference between the FY 2011 budget amounts and the “Option 12” ARC projections.

Fiscal Year	FY11 Citywide Budget	FY11 Gen. Fund Budget	Gen. Fund Percent of FY11 Budget	"Option 12" Citywide ARC Projection	"Option 12" Gen. Fund ARC Projection	Citywide Svgs. Over FY11 Budget	Gen. Fund Svgs. Over FY11 Budget
2012	57,826,000	40,200,000	69.5%	31,417,000	21,835,000	26,409,000	18,365,000
2013	57,826,000	40,200,000	69.5%	31,224,000	21,701,000	26,602,000	18,499,000
2014	57,826,000	40,200,000	69.5%	31,033,000	21,568,000	26,793,000	18,632,000
2015	57,826,000	40,200,000	69.5%	30,843,000	21,436,000	26,983,000	18,764,000

Comparing the projected ARC under “Option 12” with the FY 2011 budgeted retiree health benefit yields an estimated savings in excess of \$26 million (Citywide) and \$18 million (General Fund) for FY 2012 through FY 2015. These estimates do not take into account any potential ARC increases due to a possible increase in retirements prior to the elimination of the retiree health benefit.

In summary, the “Option 12” scenario, which assumes elimination of the retiree health benefit for active employees who have not retired as of June 30, 2009, reduces the ARC considerably. Citywide, the FY 2011 ARC is \$120.3 million, but is only funded at \$57.8 million. With “Option 12,” it is estimated that the Citywide ARC would drop to \$31.4 million for FY 2012.

The IBA has provided this information at the request of Councilmember DeMaio, and it is provided for informational purposes only. Any contemplated changes in the retiree health benefit are subject to the meet and confer process with the City’s six labor unions. “Option 12” is one of 19 options included in the Buck Consultants’ reports which will be contemplated as part of the meet and confer discussions.

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